

Message Text

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R 021817Z DEC 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 3475
INFO AMEMBASSY COPENHAGEN
AMCONSUL BELFAST
AMEMBASSY LONDON
AMEMBASSY OSLO
AMEMBASSY THE HAGUE
HQUSAF WASHDC
AFPROGDC FT WORTH TX
AFCMD KIRTLAND AFB NM

C O N F I D E N T I A L SECTION 01 OF 02 BRUSSELS 17586

E.O. 11652: GDS
TAGS: EIND, ETRD, EAIR, BE, US
SUBJECT: FAIREY AIRCRAFT AND THE F-16: SHORT-TERM SOLUTIONS
AND UNCERTAINTIES

REF: (A) BRUSSELS 12610; (B) BRUSSELS 13689

1. BEGIN SUMMARY. THE OUTLINE OF AT LEAST A SHORT-TERM
RESOLUTION OF FAIREY/BELGIUM'S FINANCIAL DIFFICULTIES IS
EMERGING. THE BELGIAN GOVERNMENT HAS PROVIDED SHORT-TERM
CREDITS OF APPROXIMATELY \$5.7 MILLION TO KEEP FIRM AFLOAT
AT LEAST UNTIL JANUARY. EARLY IN 1978, HOWEVER, THE GOB
MUST DECIDE ON A CORPORATE RESTRUCTURING SOLUTION FOR
FAIREY, PROBABLY BY ASSOCIATION WITH ONE OR MORE PRIVATE
COMPANIES SUCH AS FABRIQUE NATIONAL AND SABCA, AS WELL AS
WITH GOVERNMENT FINANCIAL PARTICIPATION. THE BELGIAN
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GOVERNMENT ALSO MUST PROVIDE THE BASIS FOR FUTURE VIABILITY
OF A RESTRUCTURED FAIREY OPERATION BY ASSURING THAT LAY-
OFFS OF A SUBSTANTIAL NUMBER OF WORKERS DOES NOT RESULT IN
"JOB ACTION" DISRUPTING FAIREY'S F-16 PRODUCTION SCHEDUL-
ING. WHILE CHANCES ARE GOOD THIS SITUATION WILL BE AVOIDED,
SUCH DIFFICULTIES MIGHT COMPEL GENERAL DYNAMICS TO PULL
BACK A SIGNIFICANT LEVEL OF PRODUCTION TO THE US THEREBY

CREATING SERIOUS POLITICAL PROBLEMS FOR GD, THE F-16 PROGRAM AND POSSIBLY OTHER US-EUROPEAN MILITARY COPRODUCTION EFFORTS. END SUMMARY.

2. GOB MINISTERIAL COUNCIL FOR ECONOMIC AND SOCIAL COORDINATION (CMCES) MEETING NOVEMBER 24 GRANTED SHORT-TERM FINANCIAL RELIEF OF OF 198.9 MILLION BELGIAN FRANCS (APPROX. 5.7 MILLION DOLLARS). THE COUNCIL OF MINISTERS CONFIRMED THIS CREDIT ON NOVEMBER 25. CMCES HAS ALSO ASKED AN AD HOC INTER-MINISTERIAL GROUP ON AVIATION TO UNDERTAKE A STUDY OF THE FUTURE OF THE BELGIAN AVIATION INDUSTRY AND FORWARD RECOMMENDATIONS TO CMCES "AS RAPIDLY AS POSSIBLE."

3. BETWEEN SESSIONS OF NOVEMBER 25 COUNCIL OF MINISTERS, PRIME MINISTER TINDEMANS TOLD THE PRESS THAT GOB'S "ORIENTATION" WAS TOWARD IMMINENT ASSOCIATION BETWEEN FAIREY AND FABRIQUE NATIONAL (FN). TINDEMANS SAID FN HAD ALREADY GIVEN ITS ASSENT TO THIS SOLUTION, AND THAT SABCA (JOINTLY OWNED BY DASSAULT AND GERMAN/DUTCH VFW) HAD EXPRESSED "STRONG INTEREST" IN JOINING FN AND FAIREY. TINDEMANS REPORTEDLY ADDED THAT THE GOB WOULD PROBABLY PARTICIPATE AS WELL, VIA SNI, THE NATIONAL INVESTMENT CORPORATION.

4. THE FOREGOING GOB ACTIONS HAD THE DESIRED EFFECT OF
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ASSURING A FAVORABLE DECISION BY THE CHARLEROI COMMERCIAL COURT WHICH ON NOVEMBER 28 CONFIRMED THE JUDICIAL CONCORDAT UNDER WHICH FAIREY WILL CONTINUE BOTH CIVIL AND MILITARY OPERATIONS AT LEAST THROUGH EARLY 1978.

5. GOB'S INTENTIONS TO SEEK A MIXED PRIVATE/GOVERNMENT SOLUTION FOR FAIREY DIFFICULTIES HAD BEEN CONVEYED TO US EARLIER THIS MONTH BY STATE SECRETARY FOR WALLOON REGIONAL ECONOMIC AFFAIRS URBAIN. HE TOLD US, HOWEVER, THAT WHILE THE PRIVATE COMPANIES BEING SOLICITED BY GOB TO HELP SALVAGE FAIREY (DASSAULT, DORNIER, FN AND SABCA) HAD EXPRESSED VARYING DEGREES OF DESIRE TO HELP OUT, THEY WERE DRAGGING THEIR FEET WAITING FOR THE ACQUISITION COST TO GO DOWN. URBAIN AND OTHER OFFICIALS SEARCHING FOR A SOLUTION TO FAIREY DIFFICULTIES STILL HOPE THAT GENERAL DYNAMICS WILL PARTICIPATE IN THE SALVAGE EFFORT.

6. THE NEXT CRITICAL PERIOD FOR FAIREY WILL BE JANUARY 1978 WHEN THE QUESTION OF FURTHER GOB FINANCING OF CURRENT FAIREY OPERATIONS AND EMPLOYMENT SHOULD COINCIDE BOTH WITH A GOB DECISION ON THE FUTURE CORPORATE STRUCTURE OF FAIREY AS WELL AS WITH THE CRITICAL STARTUP

OF FAIREY'S F-16 PRODUCTION. BRUSSELS BASED GENERAL DYNAMICS PRODUCTION DIRECTOR IS "ALMOST CERTAIN" THAT FAIREY WILL COMPLETE TOOLING PROCESS IN TIME FOR IT TO BEGIN F-16 FUSELAGE ASSEMBLIES ON SCHEDULE, AND NOTES GENERAL DYNAMICS/FORT WORTH HAS PROVIDED FOUR TOOLING EXPERTS TO ASSIST FAIREY'S EFFORTS. IF FAIREY DOES NOT MEET THE IMPORTANT JANUARY DEADLINE, HOWEVER, THERE IS A STRONG POSSIBILITY THAT GENERAL DYNAMICS WOULD BE FORCED TO PULL BACK A SIGNIFICANT PORTION OF FAIREY'S OFFSET WORK. FAIREY AND GENERAL DYNAMICS HAVE ALREADY REACHED AGREEMENT TO PULL BACK APPROXIMATELY 100,000 MAN-HOURS OF

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C O N F I D E N T I A L SECTION 02 OF 02 BRUSSELS 17586

F-16 WORK TO FORT WORTH, A DECISION THAT BELGIAN MILITARY OFFICIALS ARE FULLY AWARE OF, AND WHICH THEY WILL BE INFORMED OF SHORTLY VIA LETTER FROM AIR FORCE DEPUTY ASSISTANT SECRETARY KEEGAN.

7. WITH THE MAJOR SHORT-TERM FINANCING AND LEGAL PROBLEMS OVERCOME, GOVERNMENT OFFICIALS APPEAR INCREASINGLY CONFIDENT THAT A LONG-TERM STRUCTURAL SOLUTION WILL BE FOUND THAT WILL MAINTAIN FAIREY/BELGIUM MILITARY PRODUCTION AS PART OF A VIABLE BELGIAN AVIATION INDUSTRY. GENERAL DYNAMICS, FOR ITS PART, IS REASONABLY CONFIDENT

THAT FAIREY WILL MEET ITS F-16 PRODUCTION SCHEDULE.
EMBASSY NEVERTHELESS BELIEVES THAT THE SITUATION WILL
CONTINUE TO MERIT EXTREMELY CLOSE ATTENTION BY USG
AUTHORITIES BOTH HERE AND IN WASHINGTON. A KEY FACTOR
IN OUR VIEW, IS THE ATTITUDE OF FAIREY'S WORK FORCE.
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THE BELGIAN GOVERNMENT SEEMS RECONCILED TO SEEING SEVERAL
HUNDRED WORKERS ON CIVIL SIDE OF FAIREY LAID OFF,
PROBABLY SOME TIME IN EARLY 1978. BUT IF WORKERS AT
FAIREY DO NOT ACCEPT LAYOFFS DOCILELY, THEN IT IS
POSSIBLE THAT "JOB ACTION" TO SAVE EMPLOYMENT ON CIVIL
SIDE OF FAIREY COULD TRIGGER DISRUPTION OF TIGHT F-16
PRODUCTION SCHEDULE, THEREBY FORCING GENERAL DYNAMICS TO
PULL BACK FURTHER FAIREY OFFSET WORK TO FORT WORTH. THE
ENSUING POLITICAL UPROAR COULD POSE EXCEEDINGLY DIFFI-
CULT PROBLEMS FOR GENERAL DYNAMICS, THE F-16 PROGRAM,
AND US/EUROPEAN MILITARY COPRODUCTION EFFORTS. OLSEN

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